To: US Department of Energy via email at Economic.Dispatch@hq.doe.gov

From: David L. Mohre for the National Rural Electric Cooperative Association

Date: September 21, 2005

Re: NRECA COMMENTS TO DOE ECONOMIC DISPATCH STUDY

NRECA is the trade association for the nation's 870 rural electric cooperatives, and we file these initial comments on economic dispatch on their behalf. Rural electric cooperatives provide electric service in all or parts of 83 percent of the counties in the United States, and purchase approximately 30 % of the power they sell at retail from the wholesale market. As not-for-profit businesses, electric cooperatives have one over-arching goal, the provision of low-cost, long-term, reliable power to their member owners at a stable price. As such our perspective is somewhat different from other market participants. Particularly, rural electric cooperatives are not interested in markets for markets' sake, but markets that directly and substantially benefit consumers. Consequently only changes to existing economic dispatch protocols that provide, or at least do not hinder long-term benefits to consumers are of interest to us. This should be the objective of any analysis or suggested change regarding economic dispatch.

Focusing on changes to economic dispatch alone will not substantially increase long-term benefits to consumers, if at all. Theoretically, economic dispatch addresses the use of the available resources in the most efficient manner in the short term– assuming the system has ample transmission available. But such is typically not the case. Much additional work in the areas of transmission planning and development for reliability and long-term economic needs, and increased scope and scale of planning and coordination for larger geographic areas, is required. Enhanced transmission planning processes that address longer-term transmission issues will also benefit shorter-term economic dispatch objectives through the elimination or reduction of transmission constraints. Greater planning and coordination across control areas is also a concern to cooperatives that have load and/or resources embedded in multiple control areas.

Historically, cooperatives have relied on long-term power supply options to achieve their goals, typically through direct ownership and control of generation and transmission, and/or long-term (two to ten years or longer) power supply contracts with credit-worthy counterparties. It is this long-term approach and focus that has resulted in adequacy of resources, rate stability, competitive rates and excellent credit ratings from Wall Street for cooperatives. While NRECA would not object to changes in dispatch protocols that will allow consumers to substantially benefit from inclusion of non utility generators in economic dispatch, we, and DOE, must be certain that long-term price stability and certainty is not adversely affected by such changes. It would be a pyrrhic victory indeed if such changes discouraged investment in long-term base-load resources such as clean coal and nuclear generation, simply to ensure the short-term use of gas-fired generation

using $12.00 gas. Along these lines, existing long-term contracts and grandfathered agreements must be taken into consideration and not unilaterally changed when looking at whether and how to implement possible revisions to economic dispatch procedures.

GENERAL COMMENTS

The concept of "economic dispatch" is relatively straightforward and has been widely used the industry for decades. Virtually, every control area or market operator today uses form of economic dispatch protocols for generating units under its control/authority. Most of the issues cited today regarding economic dispatch arise from:

- Transmission constraints limiting generators' ability to be economically dispatched in their applicable areas;
- The decoupling of costs used in economic dispatch from the prices charged to LSEs; and,
- Whether or not there is a "Day 2" ISO/RTO for the region, and if so, the impact of substitution of "bid-based" economic dispatch for cost-based economic dispatch.

SPECIFIC COMMENTS

1. In areas overseen by an ISO/RTO with Day 2 markets, virtually all classes of generators have access to the "economic dispatch" process by virtue of the market design and LMP congestion management protocols. The following issues arise with this form of "economic dispatch."

    a. The generators' bids to the market operator are not bound by their costs, but by their ability to strategically bid and still be relatively certain of being dispatched at the market clearing price. In the current market this has resulted in substantial price increases as low-cost producers such as coal strategically bid prices to near high-cost gas in order to maximize profits. With gas near $12 and coal at $1.50 - $2.00 per million BTU, low cost producers are profiting handsomely, and it is unclear that consumers are benefiting, as they would under a traditional cost-based economic dispatch regime.
    b. Unit commitment issues can also limit the operator's access to flexible and economic generation for inclusion in the economic dispatch process.
    c. Generators inside load pockets face little to no competition and are relatively certain of being dispatched in certain periods due to the use of LMP, and, therefore, restrain their offer prices only in the face of potential mitigation.
    d. Prices in RTO/ISO markets using LMP are being set by the most expensive units (i.e., "gas") for a large percentage of the time, and prices inside load pockets will be even higher due to lack of even that degree of competition that may exist outside the load pocket.

e. Even though LMP is a form of security-constrained economic dispatch, because of pervasive transmission constraints in these markets, it is difficult for LSEs to protect themselves against the above described behavior of LMP, inadequately mitigated market power problems, and the unavailability of long-term transmission rights.

2. In areas without ISO/RTO markets, economic dispatch issues take on a different flavor entirely.

    a. Individual utility control area operators typically utilize their own generators first in their economic dispatch operation, supplemented by any network resources needed to meet their OATT requirements and units used to honor sales and purchase commitments to others.
    b. Non-utility generators in these control areas can access the market in accordance with the OATT and FERC Interconnection Rules. However, there is no "automatic guarantee" of being dispatched; instead dispatch will be determined by:

        i. Choice of supply offers made to the control area operator or network and firm point-to-point customers in the region for sale of output on a short or long-term basis;
        ii. Location and persistence of transmission constraints;
        iii. The impacts of rising fuel prices.

    c. Non-utility generators, NUGs, that sign long-term contracts with LSEs in the region stand a much greater chance of being included in the local economic dispatch operation, subject to the following limitations:

        i. In tightly constrained areas, long-term contracts may be difficult to obtain because of the risk of deliverability;
        ii. Obtaining transmission to assure long-term deliverability is an unresolved issue at the FERC and is a problem for both generators and for LSEs;
        iii. Control area operators that are also transmission owners have the ability to set the local reliability criteria in accordance with NERC standards. In limited cases, these criteria may tend to favor the use of their own generation over others;
        iv. Transmission cost allocation issues are still problematic in some areas, and inhibits the development of transmission that could help relieve transmission constraints that impact economic dispatch.

We appreciate the opportunity to provide those initial comments, and trust they will be useful to you. We look forward to continuing dialogue on this extremely important study. If you have any questions please contact me at 703-907-5812, or in my absence, Paul McCurley at 703-907-5867.

Thank You

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NRECA